

**COMMITTEE ON ACCOUNTS, ENROLLMENT
AND REVENUE ADMINISTRATION**

February 15, 2005

5:00 PM

Chairman Smith called the meeting to order.

The Clerk called the roll.

Present: Aldermen Smith, Guinta (late), Osborne, and Shea

Absent: Alderman Thibault

Messrs.: S. Bassett, R. Sherman, S. Wickens, K. Buckley, S. Wickens

Chairman Smith addressed Item 3 of the agenda:

Presentation of the draft FY2004 Comprehensive Annual Financial Report (CAFR) and draft Management Letter by Scott Bassett of McGladrey & Pullen.

Scott Bassett, McGladrey & Pullen stated we were engaged to audit the City's financial statements as of June 30, 2004 and this afternoon I am here to talk about and highlight the financial results of the City that we encountered during the audit and entertain any questions that you may have as it pertains to the audit for June 30, 2004. I guess as we sit back and we talk about...we can go through the 140-page document and we can in general talk about the City's finances and activity that took place during the year and the highlights of that activity. In all instances I believe the City's assets increased by fund level, by government wide level and by Enterprise fund level. The general fund balance, undesignated and unreserved fund balance, remained consistent. Your general fund ratio of fund balance to expenditures remained consistent. The City went out and bonded close to \$200 million in debt. \$170 million of new debt and \$25 million of refunding debt. We talked in the past couple of years about the hope that our rating would increase as far as when we go out to the market. We did have a rate increase this year, which will impact the bonds, \$170 million worth of bonds, out for the next 20 years. So the things that management and the Aldermen have been doing as far as managing fund balance and maintaining a level fund balance and continue to have a high collection rate of taxes...the Enterprise funds (Aviation, EPD and Water Works) are raising revenues that exceed their costs and maintaining positive cash flows there all have to do with that. It is not just one individual item that will get you to a higher bond rating. It is collectively what other departments do within the City.

So really as you go through these financial statements this year, it is a real positive story that it tells. We did have three comments during the course of the audit. Number one and two are repeats from the prior year. As we look at these I guess a couple of things that...we like centralization. We like internal controls and segregation of duties and items 1 and 2 really relate to those type of items but these are observations and there is a cost benefit that relates to each of these observations. I believe that we live with the risk or the weakness with the internal controls on these two comments. The third comment had to do with a procedural instance at Water Works as far as how they periodically value their inventory. It is my understanding that has been corrected but during the course of the year they were understating their assets so they were being very, very conservative instead of valuing the inventory at either its purchase price or a lower cost to market. We found a couple of instances where they hadn't done that. So pretty clean internal control. Since I have been here the internal control structure has been very, very strong. We look at different things each year and things that we do bring up are usually corrected through the corrective action plan of the various departments. With that I think what I will do...if you have your CAFR with you and I am not sure if everyone has the gray booklet with them or not but what the...this is our third year with this management discussion and analysis and when people ask about really what happened in the City this year I would reference them to these probably eight pages in this booklet. It really tells you the financial highlights of the City. Starting on page 17 the total assets of the City for the year were \$407 million. That includes all of your infrastructure assets and other accumulated depreciation. It does not include the pension assets. The governmental funds had a fund balance of \$154 million. Of that total, \$4.9 million is available at the discretion of the City. The general fund alone had a \$25.1 million balance, an increase of 2.2 from the prior year. Included in the year was an appropriation of \$1.6 million of the unreserved, undesignated fund balance and as of June 30, 2004, \$1.4 million of the total general fund balance represents unreserved, which is 1.3% of total general fund expenditures of \$108 million. The Manchester Airport for the year was operating at income levels from \$4.7 million to \$6 million, which is about a 27% increase in that operating income and that was due to increased parking revenue as a result of increased passenger growth. The Airport is used to operating at a strong nature and growth continues. The Water Works had net assets of \$63.4 million and the unrestricted net assets of the Water Works was \$.1 million dollars.

Alderman Shea asked can you tell us where you are reading from so we can follow.

Mr. Bassett answered I am on page 25 under the caption Proprietary Funds. Going down on the page we talk about general fund budgetary highlights for the year. The rainy day revenue stabilization fund remains constant at \$9.6 million. We talked about a slight increase from \$1.3 million to \$1.35 million in the general

fund undesignated/unreserved fund balance. In the last paragraph on page 25 you can see there that budgetary basis revenues are \$106 million, realizing an increase of \$324 from what was budgeted. The main ingredients of that growth were property taxes, representing 57% of all revenues, inter-governmental that represented 7% of that, and licenses and permits representing 20%. On page 26 you can see the comparison of revenues from 2004 to 2003, the amount of increase or decrease and the percentage of that increase over the year. You can see that our revenues went from \$101 million to \$109 million during the year, the big impact being with taxes and an increase of the sale of land and other revenue on page 26. Page 27 shows the general fund expenditures and it compares 2003 to 2004. Again, expenditures were \$105 million as compared to \$99 million in the prior year and the percentage is there for increases and decreases as presented on page 27. If you turn to page 28 and 29 we talk about capital assets and the major additions that took place from the governmental type assets during the year, which is presented on page 29. You will see continued improvements to school facilities, playgrounds and athletic fields. We did sell a municipal parking garage during the year. Long-term debt. In that comparison from 2004 to 2003 you will see a significant increase in the general obligation of revenue bonds. The \$101 million revenue bonds have to do with school projects, which are backed by revenues that will be generated. The overall governmental activity debt is at \$279 million as compared to \$119 million in 2003 so a significant amount of activity and again as I mentioned when I started my presentation and we talk a little bit about it in the next paragraph, is the rating agencies and how they rated that debt. Sometimes you do things for today but they have a large impact on your financing in the future and I think that really helps increase your bond rating and saves you some basis points on this long-term debt. Finally on page 30 the City presents some budget trends from one year to the next and as you can see there the general fund budget has gone from \$104 to \$106.5 million to \$113 million. We issued the same opinion on the financial statements as we did in the past. We do have one qualification as far as the accounting for the contribution of the civic center over to the City. Other than that, the City received a clean, unqualified opinion other than that one caveat that has to do with the government wide statement. With that, I would be happy to open it up for any questions you may have.

Chairman Smith stated I have a few. On page 29, capital assets, I noticed the unemployment rate went down from 4.2% to 3.4% and we did quite a bit of bonding and you are saying our general debt limit is 9.75.

Mr. Bassett responded as a percentage of the base valuation, 9.75 or approximately \$8.3 billion I guess.

Chairman Smith stated I don't know what page it is on but Aggregation, I call it irritation but I notice that it has quite a deficit.

Mr. Bassett replied yes the Aggregation program, and we have talked about this the last couple of years, they continue to run a deficit. They owe the general fund approximately \$1.7 million at the end of June 30, 2004. We fully reserved for that. Even our general fund fund balance is reserved which indicates that the ability to collect that and use it to support current expenditures is not probable. It is a management decision as far as aggregation ever having the ability to repay the general fund for that \$1.7 million. If that is the case, you really have to take a hard look at that and see if the general fund can afford to forgive that debt or what is the plan to repay it. If there is no plan, that is why we reserve it because the assets aren't sufficient to pay that debt. The deficit continues to grow from one year to the next and really it is a management process but from a conservative standpoint we account for almost like that receivable is uncollectable.

Chairman Smith asked what would be the ramifications or how could we get out of this.

Mr. Bassett answered the question really is does the program continue. It is my understanding from when it started to where it is today some things have changed with some legislation and deregulation. It is really a management decision to consider but I think if you are going to start anew you really have to think what are the possibilities of ever repaying that. I think management has to make a decision from a general fund standpoint is that going to be repaid and what is the likelihood of that getting repaid and will that program ever generate significant resources to repay it.

Chairman Smith stated I have one more thing regarding observations. You put down three things and from what I understand in talking to Manchester Water Works, I think your observation has already been corrected. Observation #2 we just got in today a few replies from different agencies in regards to that observation. All in all, you would say that the City is in good financial hands at this stage?

Mr. Bassett responded right. I think the internal control structure of the City is sound. Although we don't apply internal control over financial reporting we do have to test transactions to plan our audit and determine the risk associated with those tested transactions. So there are no reportable conditions or material weaknesses within the City or at any of the departments of the City. So, it is my opinion that the internal control structure is sound.

Alderman Shea stated in reading through this and I know that we will be discussing this at the Board level this evening but I tried to get involved with the significant accounting policies and alternate treatments that you submitted to us regarding GASB statement #40 and so forth. My point is how will that impact the City of Manchester in terms of the year 2006, 2007, etc.

Mr. Bassett responded that is a great question and I should have probably brought that up. We are going to talk about these; these are note 14 on page 81 of the booklet. The most significant pronouncement after that that would have a financial statement impact is really GASB statement #45. That has to do with other post-employment benefits – benefits that are paid for retirees other than pension plans, health benefits and things of that nature. Right now, the accounting for those types of transactions is pay as you go basically. If a retired employee is due a benefit, we budget for it and we would pay for that. No accrual of any type or future liability or liability for the employees who are currently hired who will receive that benefit in future years. What GASB #45 mandates is that an actuarial study be completed on those benefits and account for it similar as to how you account for a pension plan as far as your accrued liability. So the impact on the financial statement on a budgetary basis from GASB #45 would be if our current pay as you go and I am sure it is in here someplace, is costing us \$1 million a year just to use an example when the actuary determines that to fund that at the correct level is \$2 million a year and the City decides to fund it at that actuary determined level as you do with pension plans, that would be the budget impact of it. If you fail to do that and you fail to make the recommended contribution and this is on the full accrual basis of accounting, you will incur a liability for the underpayment of that calculated contribution by the actuary. So, it is a big deal. I think it is something that all cities are going to take a look at and the impact of it versus...because for some cities it is going to be in the millions and millions of dollars as far as its accrued liability and this other post-employment benefit that is out there. Right now, we don't know what the liability is just that it will be calculated similar to what we have for the pension liability but we haven't undertaken what the future cost of these benefits are and we haven't been required to do that but this GASB is going to require us to do that.

Alderman Shea stated if I follow you correctly and you can interrupt me at any time because you said a lot of things and some of it I have absorbed and some if it I have tried to absorb but are you indicating that the City then should have some sort of a reserve fund available to meet its obligation that might be anticipated if some kind of a situation were to develop.

Mr. Bassett answered no. It is going to be similar to...basically these are benefits that are similar to pension benefits. So basically what we do with pension plans is we determine the actuary accrued liability and what we have to contribute to fund those plans. The situation could not occur...these are benefits that are accruing now so what you need is a trust fund to offset...a trust fund will be developed which will be similar to a pension trust fund where the assets are really you are acting as a fiduciary capacity and the assets no longer belong to the City. They would belong to the trust and what you have to pay the future benefits. You would probably have to develop a trust for it and that trust would start at the first

year what the actuary recommended contribution would be. That would be the first asset to be put into that trust fund.

Alderman Shea stated now it is up to the City to establish or try to establish that trust fund, correct.

Mr. Bassett answered that is up to the City under GASB #43. You do not have to establish that but you do get some benefits if you do establish a trust as far as the calculation of the accrued liability.

Chairman Smith stated to follow-up on GASB #40 which is going to be implemented in June 2005, would you explain the risk factors and so forth.

Mr. Bassett responded I think what GASB #40 did is and this was probably back in the early 80's, GASB #3 dictated as far as our disclosures about the positive investment risk and categorization of monies that were held because of the bank failures that took place in the early 80's. Where #40 is is taking a look at now that cities are investing in different vehicles and different categorizations they are really revamping that to meet what the market is now and what financial institutions are doing now. It is a disclosure statement only. I don't believe you are at risk with the categorization of the risk you are taking with your investments and your deposits will change. I think you will still get the high category level. This is really just a revamp of your deposit and investment but the overall impact will be minimal in my opinion on the City's financial statement if any impact other than disclosure.

Chairman Smith addressed Item 4 of the agenda:

Communication from Guy Beloin, Financial Analyst II, submitting the City's unaudited monthly financial statements for the seven months ended January 31, 2005 for FY2005.

Randy Sherman, Deputy Finance Director, stated before we get into the discussion on the financial statements if I can just add one other thing while Scott is still here this is actually the fifth and final year of their current contract. The Charter Amendment that got passed last year takes the external audit responsibility out of the Finance Department and sets it with the internal auditor that is again being set aside by that Charter requirement. What we...we are kind of running into a problem because that Charter amendment doesn't take effect until July 2005, which means that the City is without an auditor in the meantime. What we would like to recommend is that we actually extend the contract for one additional year. Typically they start their audit process in May or June and if we wait until July for the internal auditor position to take effect and issue an RFP, we clearly won't get our audit done in a timely fashion. The procurement code does allow for the City

to do this as long as we live by the same terms as the current agreement. We would like to lay that on the table here tonight. We would like to extend the contract for one additional year and then let the internal auditor go out and issue an RFP next year.

Alderman Osborne moved to extend the contract with McGladrey & Pullen for one additional year. Alderman Shea duly seconded the motion. Chairman Smith called for a vote. There being none opposed, the motion carried.

Mr. Sherman stated as far as the financial statements go, I guess what I would like to do if I can is sort of turn to pages 3 and 4. Page 3 is the 2005 expense activity and page 4 is the 2004 activity. This used to be on one page and it was hard to read so now it is on two pages. I guess what I would like to point out...Guy has gone through it and highlighted certain lines. He has given you a little write up on his transmittal letter but just to point out something to the Aldermen if you look on page 3, the number on the very bottom right hand side, that \$37.69 million is the balance of the budget that is remaining through the end of January. If you go up to the section before that, there is a \$39.21 million number. That is the balance that the departments have left within their operating budgets. If you flip over to page 4 and look at the same numbers for last year you will see that they are very comparative. There is very little difference so despite the fact that the departments were provided no funding for their COLA's and they got their 2% cuts, again and I know you have heard me say this in the past but I think the departments are doing an excellent job living within their current appropriations. We do monitor the salaries on a weekly basis to track that and make sure that the \$500,000 we have set aside to cover any issues is adequate and at this point I think we have something like 20 weeks left in the fiscal year and we are still well within that \$500,000 to make it through the end. If we don't get any major overtime issues or mass exodus through retirement, I think we are going to be okay with the dollars that we have in the FY05 budget. The other page I would like you to look at is page 8, which is the last page of Guy's report, which deals with the revenues. Again, in the transmittal letter Guy has addressed all of these and pointed out the fact that the auto registration, though it is running ahead of last year, is not running at the level that we had budgeted. Again, we don't have a major concern at this point because the auto registration in some estimates is really...I won't call it seasonal but we do see our ups and downs from one month to the next. As you know it is all based on birth dates and those types of things. The numbers that I would like to have you look at though are the very last two lines on that report. The report actually shows that our revenues are down this year as compared to last year but there are two very good reasons and they are on the last two lines. The school chargebacks at this point are running \$771,000 less than last year. Just to let you know, don't be too alarmed by that. There are several departments that do quarterly billings and they haven't put in their billing for the second quarter yet. They are running slightly behind on that. So when you see your February report,

you should see that the chargebacks have pretty much caught back up. We do check with the departments to find out how they are tracking for the year. Several departments have indicated that they think that they will be slightly under the budget but again it is nothing that we are too concerned with. The other line is the miscellaneous line that is on the bottom. It shows a -\$614,000. Keep in mind last year's number included the selling of the Canal Street garage. So though we budgeted that our revenues would be up, we certainly didn't budget that that line itself would be up. Again, you pull that \$650,000 out of last year's number and we are in essence ahead of last year on a total basis. Again, at this point in tracking the revenues we think we will either meet or exceed the budget. Again, there is no major concern there and on the expense side it would stay the same. I would open it up to any questions.

Alderman Guinta stated regarding the Canal Street garage, what account is that deposited in.

Mr. Sherman responded there was \$650,000 that was budgeted in the budget process as a revenue. If you remember, part of the issue we had with the Canal Street garage is that there was still outstanding debt. So the \$650,000 actually went in as a revenue to offset against the budget. The balance of those dollars went into that one time special revenue fund and those in essence were the dollars that we used to purchase the JacPac property.

Alderman Guinta stated I thought by ordinance all of the funds had to be deposited into that account.

Mr. Sherman responded anything that you are not budgeting for and if you remember that was part of the budget process that year. If we include it then we can count it in the budget process. We have tried to go that route but this \$650,000 was included because it was over and above the debt service. We actually ended up getting more than we anticipated.

Alderman Guinta asked what was the debt service. Just over \$600,000?

Mr. Sherman answered no it was closer to \$2 million.

Alderman Guinta asked no that we had owed.

Mr. Sherman answered the debt service that we had on Canal Street was like \$1.9 million or right around \$2 million. We thought we would get \$2.5 million so that is why we had the \$650,000 in the budget. Again, we can't take the proceeds that in essence equal the outstanding debt and use it in the budget. You can't go out and issue bonds, buy an asset and then sell it and take the proceeds and reduce your tax rate.

Alderman Guinta stated another question I have on the revenue side...no overtime. You mentioned that if we don't have an issue with overtime we should be okay. Right now, is overtime set by the department head? Is there a freeze on overtime spending?

Mr. Sherman responded they all have their overtime budgets and they are all making their own internal policies to stay within those numbers. The only one that would be questionable at this point would be the one at the Highway Department, which is obviously weather related. The Fire Department and the Police Department are both managing within their numbers this year and actually I believe both of them have overtime numbers actually lower than last year's at this point.

Alderman Guinta asked is there a mechanism by which overtime in the last quarter or at any time actually, forget about the last quarter, can overtime be managed or approved by either the Mayor or the Board.

Mr. Sherman answered there used to be a mechanism that if it was planned overtime the Mayor would always sign off on it. That has to be six or seven years ago that we stopped doing that. Then obviously if it is emergency overtime you would just report it to the Mayor after the fact.

Alderman Guinta asked do we still have planned overtime as a policy in the City. Do some...

Mr. Sherman interjected I think you have planned overtime certainly like at the ice rinks where guys come in on the weekends and clean the ice. That is planned overtime. I think there is probably some planned overtime at the Fire Department if they know of vacations and those types of things but when you have a firefighter that is ill and you have to bring someone in that is an emergency.

Alderman Shea responded that kind of centers on what I was going to say I guess. The critical part is obviously the last quarter and before we enter that, I believe the last meeting we had there were indications from your sources that we would be notified so that we could recommend or suggest some sort of policy that might be adopted to keep within the 2% if possible for governmental or department expenses. Revenues, of course, we don't have any control of and I think you concur with that.

Chairman Smith stated we should be at 41.67 on the balances and we are at 39.21 so actually we are almost at 2.5%...

Mr. Sherman interjected right on a straight percentage basis you are just a little bit lower but there are some items that get paid up front like the CIP dollars all go out. We pay a larger percentage of our debt service up front. So there are some of the larger items that do come out early. Again, if you look back to where the departments were last year, it is very comparative to last year's numbers.

Chairman Smith asked what about the Highway Department.

Mr. Sherman answered the Highway Department...again we are watching their salaries real close. Frank thinks that his number at this point is in the \$120,000-\$130,000 range that he would actually be looking for to cover his regular salaries. Not his overtime but his regular salaries. Again, that is why we have that \$500,000 there and again on a general fund basis what I see needing to come out of that \$500,000 is less than the \$500 at this point, which is the good news. On an overtime basis, he has not exhausted his full overtime budget yet. Days like today help a lot. If we get another one of those 18" snowstorms, he is...you know he may have another good storm left in his budget but if he gets hit two or three times and I understand it takes as much to plow 10" as it does to 4" sometimes and then you have the salt issues and all of those matters but we are monitoring it along with Frank and right now we think we are okay.

Chairman Smith stated if you could let us know in advance if anybody has a problem because we would like to have it corrected as soon as possible. It seems like we are doing very, very well until we hit the month of December and then everything started to go the other way and different departments were coming in to the full Board asking for money. We would rather have them go through the Mayor, Finance and the Accounts Committee before they go to the full Board.

Mr. Sherman replied as soon as the Mayor sent out his e-mail telling departments the process, the letters stopped. It was kind of interesting. Again, we have talked to some of the departments that have sent in letters and right now nobody is looking for any additional money and we are doing okay.

Alderman Guinta asked Randy payment in lieu of taxes, is that \$770,000 right now.

Mr. Sherman answered yes.

Alderman Guinta stated last year it was under \$500,000. How does that number...why does that number fluctuate?

Mr. Sherman asked what number are you on.

Alderman Guinta answered page 7 on the revenues. Payment in lieu of taxes. It is about eight items down. Last year it was \$497,000 and this year it is \$769,000.

Mr. Sherman replied right and you are going to see that number dip again next year. The reason it is so high this year is with the arrangement that we had down on the riverfront with the baseball stadium if the construction wasn't in place they had to make a payment in lieu of taxes to cover the debt service. That is what is in that \$700,000.

Alderman Guinta asked so it is not found money.

Mr. Sherman answered no.

Alderman Shea moved to accept the financial statements. Alderman Osborne duly seconded the motion. Chairman Smith called for a vote. There being none opposed, the motion carried.

Chairman Smith addressed Item 5 of the agenda:

Communication from Kevin Buckley, Independent City Auditor, submitting audit status updates.

Kevin Buckley, Independent City Auditor, stated the report I am presenting tonight is a request that I got from the Trustees of the Cemeteries. The Valley Street Cemetery Blood Mausoleum, which is in very bad shape, the trustees and Friends of the Valley Street Cemetery were looking for funds to rebuild the mausoleum and the Friends of the Valley Street Cemetery thought they had a lot more money than was actually in there. So they asked me to go in and roll the balances forward from 1899 to the present so that I could determine what was in each fund. There was a state requirement that all individual trust funds...and each cemetery lot under perpetual care has an individual trust fund. For years and years the City has accounted for them all as one big trust fund but the state requires that you keep track of them on an individual fund basis so they basically had me go in and just break them all out into individual funds and roll all of the balances forward from 1899 to the present so that they could see how much was in the Blood Mausoleum Fund. That is the gist of what I did in that report.

On motion of Alderman Osborne, duly seconded by Alderman Shea it was voted to receive and file the audit status update.

Chairman Smith addressed Item 6 of the agenda:

Communication from Sharon Wickens, Financial Analyst II, submitting reports as follows:

- a) department legend;
- b) open invoice report over 90 days by fund;
- c) open invoice report all invoices for interdepartmental billings only;
- d) open invoice report all invoices due from the School District only;
- e) listing of invoices submitted to City Solicitor for legal determination; and
- f) accounts receivable summary.

Sharon Wickens, Financial Analyst II, stated on the reports for the over 90 days there is nothing unusual on it. You may note that there are some interdepartmental billings that are over 90 days and outstanding. The bulk of those have been taken care of. Our interdepartmental billings go through our accounts payable process and this report was run on February 9. Our accounts payable checks were run on the 15th so by running the reports early I didn't pick up the payments as of yet but I think you will see that those will be gone. Other than that, there is pretty much no new additions or just a few here and there but nothing out of the ordinary.

Chairman Smith stated one point was brought up to me earlier. The circus is coming to town and they owe us from last year. I hope that we receive our payment before you allow them to come into the City.

Ms. Wickens responded I don't know that that is the same circus. They are currently in the hands of the collection agency and they are not doing well in getting this payment but I don't think this is the same company.

Chairman Smith stated I see that the respective groups are roughly the same. We had a fine report from the Airport Authority so we know what the situation is there. I don't have anything. Does anybody else have anything in particular?

On motion of Alderman Guinta, duly seconded by Alderman Shea it was voted to accept the reports.

Chairman Smith addressed Item 7 of the agenda:

Communication from Tobias Svantesson, Internal Auditor, submitting a summary of CIP project balances as of December 31, 2004.

On motion of Alderman Shea, duly seconded by Alderman Osborne it was voted to accept the communication.

Chairman Smith stated at this time rather than take up the tabled item from what I understand they are still talking and I would like to keep this on the table until they meet with the negotiator and different departments.

TABLED ITEM

8. Tuition Reimbursement Program

This item remained on the table.

There being no further business, on motion of Alderman Shea, duly seconded by Alderman Osborne it was voted to adjourn.

A True Record. Attest.

Clerk of Committee